



BT Group plc

Q3 2015/16 results and acquisition of EE

1 February 2016



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**Gavin Patterson, Chief Executive**



# Overview



- ▶ Strong set of Q3 numbers across the board
  - 4.7% growth in our main revenue<sup>1</sup> measure; best for more than 7 years



- ▶ Very good operational performance
  - Consumer grew line base for first time in more than a decade
  - strongest-ever Openreach fibre take-up



- ▶ 2015/16 revenue<sup>1</sup> outlook refined
  - now expect 1-2% growth

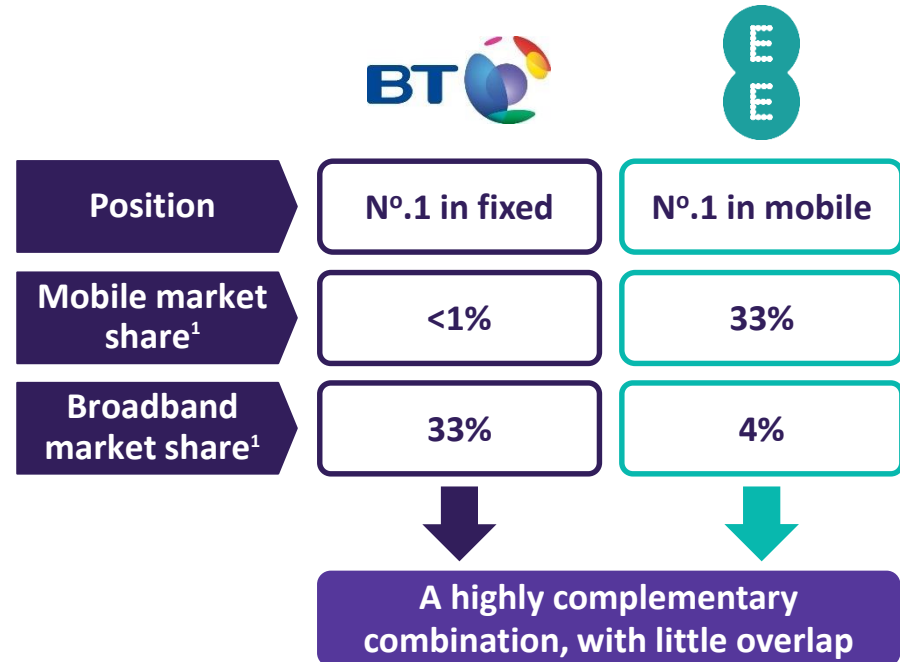


- ▶ Acquisition of EE completed
  - unconditional clearance from CMA
  - creating a new UK-centric division for Business and Public Sector

<sup>1</sup> underlying revenue excluding transit

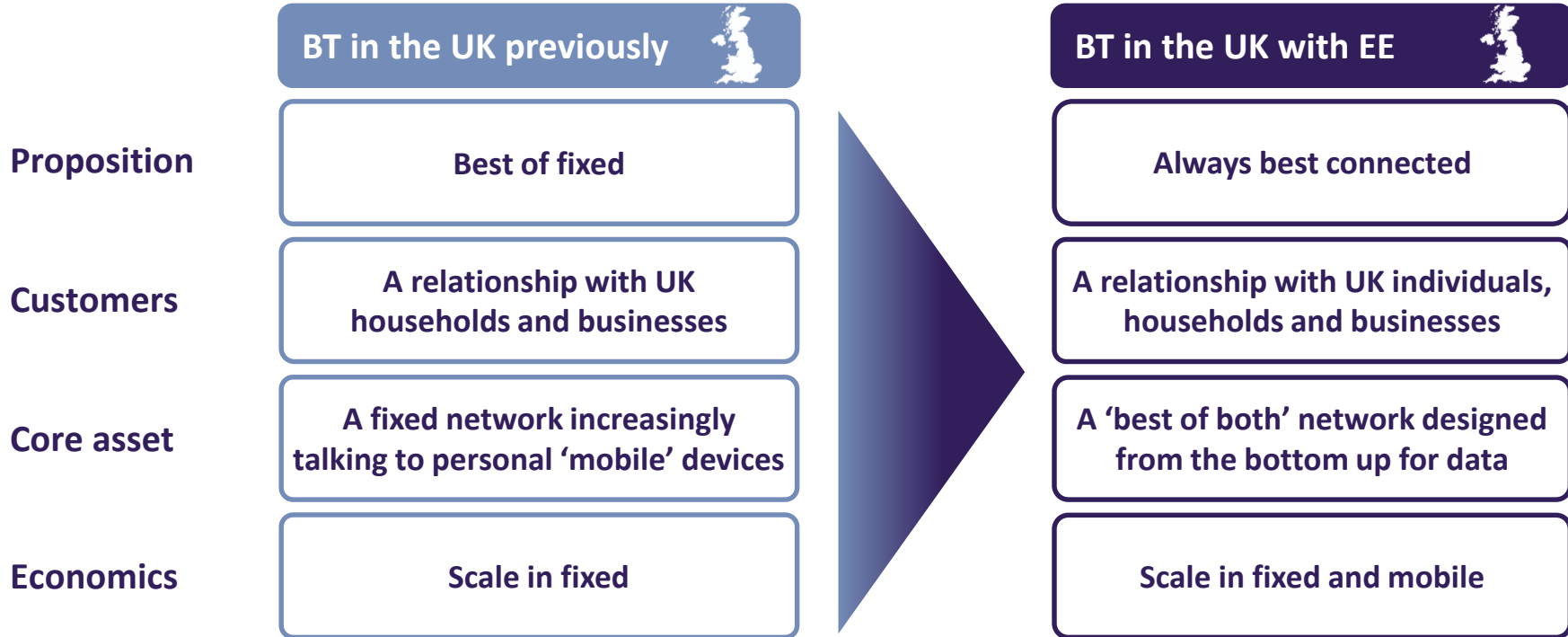
# EE acquisition completed 29 January

- ▶ We've bought a great business
- ▶ Creating the UK's leading communications provider
- ▶ A digital champion for the UK
  - providing high levels of investment
  - driving innovation in a highly competitive market
  - combining the power of fibre broadband with the convenience of leading-edge mobile services



<sup>1</sup> Source: Company reporting and Ofcom subscriber data

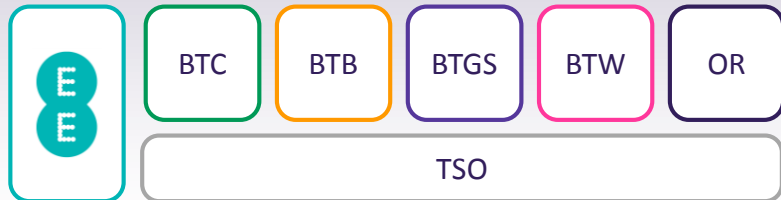
# EE strengthens our future



**Opportunity to generate considerable customer and shareholder value**

# Next steps to unlocking value and synergies

## 1 February organisation



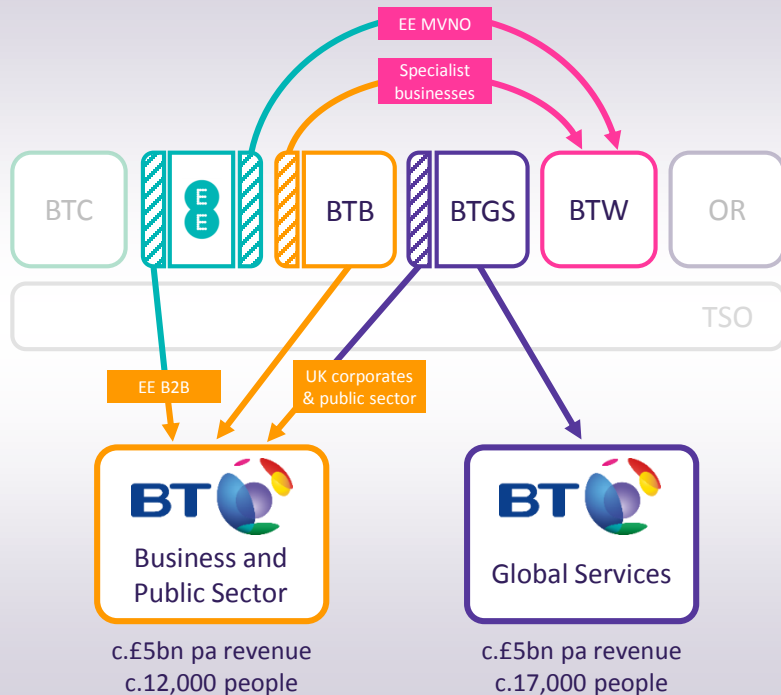
- ▶ EE and BT brands retained for mobile consumers
- ▶ New EE CEO Marc Allera to join BT Operating Committee
- ▶ DT CEO Tim Höttges on BT board

## Next steps

- ▶ Integration project management office to manage overall process
- ▶ BT board integration committee will track progress
- ▶ Begin transition to future operating model
  - alignment of corporate functions
  - new, UK-centric Business and Public Sector division

# New UK-centric division for Business and Public Sector

## 1 April organisation



## Main changes

- ▶ A UK-centric organisation, combining three UK businesses into one, aiming to provide:
  - a more regional and focused approach to serving the UK public sector
  - seamless, converged products across fixed, mobile and IT services
  - better alignment of resources to improve customer service and delivery
- ▶ Allows Global Services to sharpen focus on global and international customers
- ▶ EE's MVNO operations and specialist businesses in BT Business (eg BT Fleet) moving to Wholesale





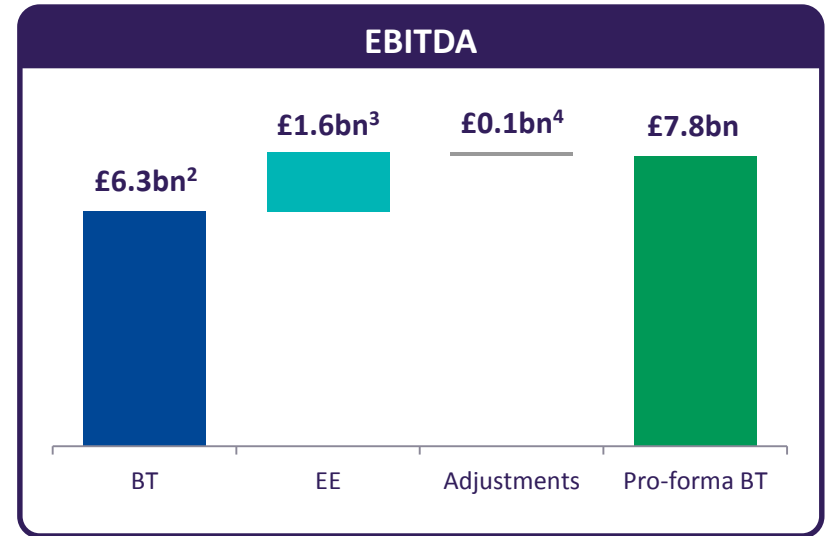
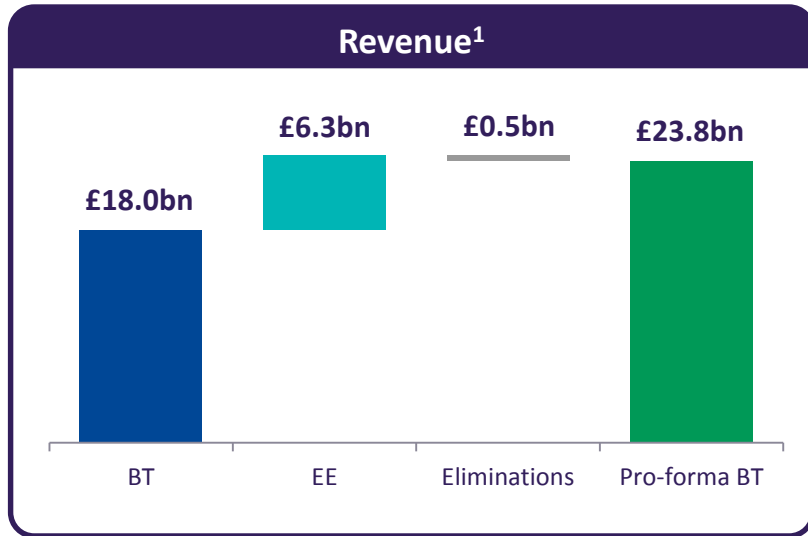
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**Tony Chanmugam, Group Finance Director**



# BT & EE pro-forma financials



<sup>1</sup> Extracted from Part 13 of Prospectus (data is for the year ended 31 March 2015 for BT and the year ended 31 December 2014 for EE)

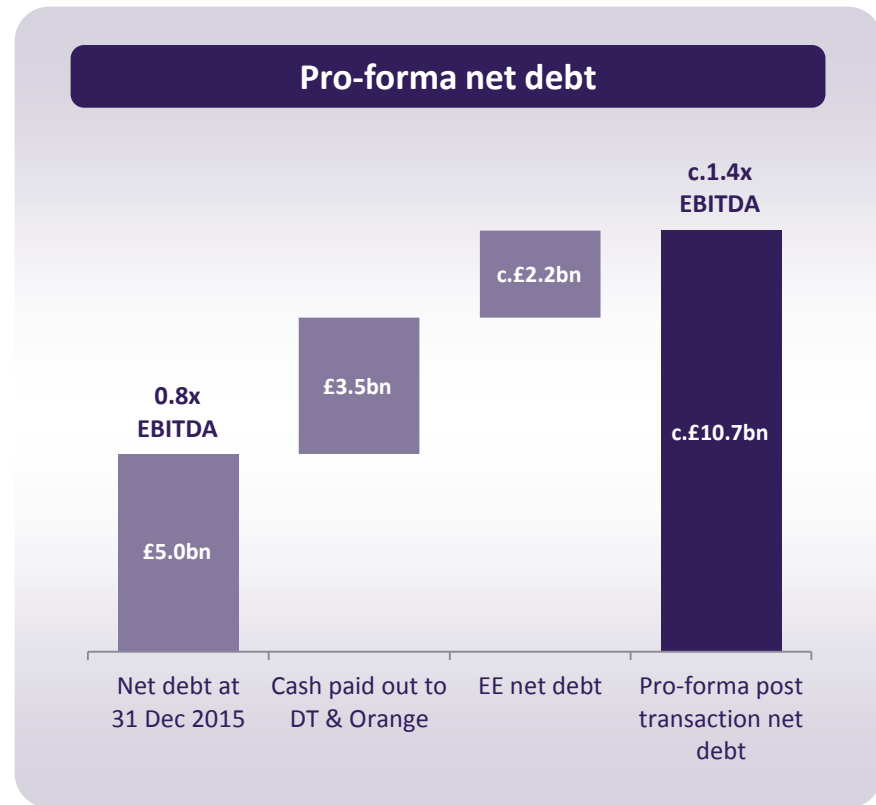
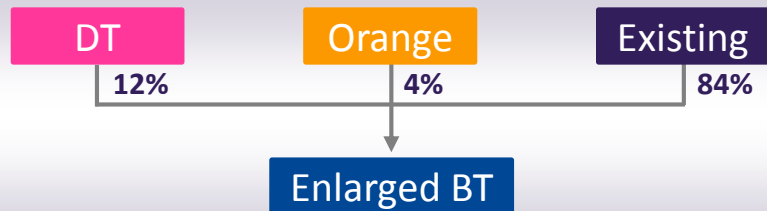
<sup>2</sup> BT's Adjusted EBITDA for the year ended 31 March 2015

<sup>3</sup> EE's Adjusted EBITDA for the year ended 31 December 2014. EE's Adjusted EBITDA is before management and brand fees payable to its shareholders, one-off items and restructuring costs

<sup>4</sup> Includes: accounting policy adjustments, brand fees and differences in treatment of specific items. Before any consolidation adjustments (eg purchase price accounting and intercompany eliminations)

# EE financing

- ▶ 1,595m new shares issued to DT and Orange
  - results in 9,968m shares now in issue
- ▶ Cash consideration of £3.5bn
  - from £1bn equity placing and committed acquisition facility
  - final cash consideration subject to customary post-completion adjustments
- ▶ c.£2.2bn of net debt within EE



# Confident of EE synergies

**c.£360m**

- ▶ Total opex and capex synergies in 4<sup>th</sup> full year post completion

**c.£3.0bn**







- ▶ Total NPV of opex and capex synergies post integration costs

**c.£1.6bn**

- ▶ Total NPV of revenue synergies

- ▶ Integration planning over last 6 months
  - >50 operational experts from both BT and EE
  - 15 work streams, eg call centres and finance
  - plus group-wide programmes, eg procurement, people and culture
- ▶ Leaders from BT and EE involved to provide both perspectives and get full buy-in
- ▶ Using same forensic methodology used for cost transformation

# Strong Q3 results across the board

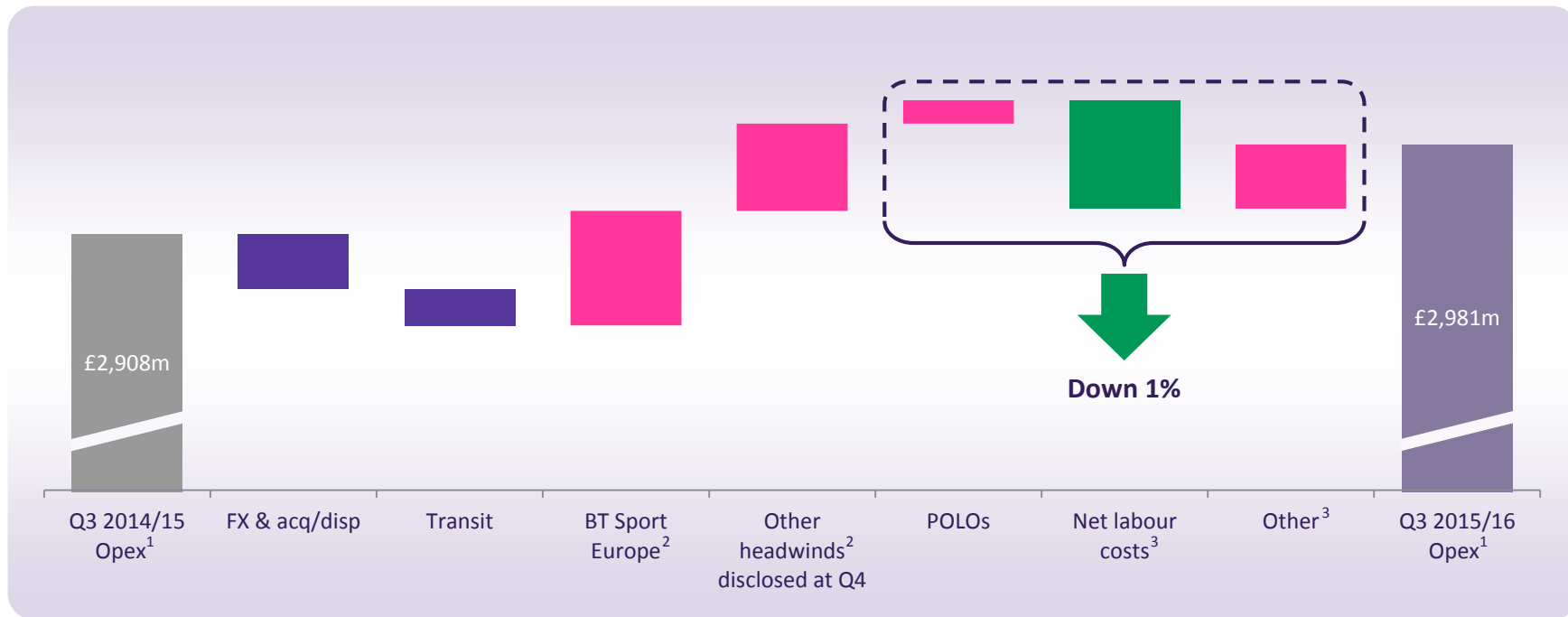
		YoY change	
<b>Revenue<sup>1</sup></b>	£4,594m	3%	
- underlying <sup>2</sup> ex transit		4.7%	
<b>EBITDA<sup>1</sup></b>	£1,613m	3%	
<b>EPS<sup>1</sup></b>	9.0p	13%	
<b>Normalised free cash flow<sup>3</sup></b>	£904m	flat	
<b>Net debt</b>	£5,021m	down £1,181m	

<sup>1</sup> before specific items

<sup>2</sup> excludes specific items, foreign exchange movements and the effect of acquisitions and disposals

<sup>3</sup> before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

# Operating costs reflect investments for growth



**Underlying opex<sup>1</sup> ex transit up 5%; down 1% ex headwinds disclosed at Q4**

<sup>1</sup> before specific items and depreciation and amortisation

<sup>2</sup> headwinds disclosed at Q4: investment in BT Sport Europe, higher pensions operating charge, higher leaver costs and no benefit this year from the sale of redundant copper

<sup>3</sup> excluding impact of headwinds

# Cost transformation examples



## ▶ Pan BT – network planning and engineering support

- consolidate >500 locations down to 31 larger centres of excellence – run more efficiently
- simplify systems, increase automation
- focus on managers' role in coaching teams to be highly productive and effective
- on track for >£100m savings, as well as speeding up processes and improving service



CPE

## ▶ Global Services and BT Business - customer premises equipment (CPE)

- consolidating supplier base; centralising ordering in centre of excellence
- maximise discounts and rebates from suppliers
- refurbish and re-use CPE
- c.£50m opportunity



## ▶ Pan BT – travel and subsistence

- expect costs for 2015/16 to reduce by £12m to £75m
- compares with £102m two years ago

Still >£1bn of gross cost saving opportunities

# 2015/16 revenue outlook<sup>1</sup> updated

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**Underlying revenue<sup>2</sup> ex transit**

1-2% growth

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**EBITDA<sup>3</sup>**

Modest growth

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**Normalised free cash flow<sup>4</sup>**

Around £2.8bn

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**Dividend per share**

Up 10-15%

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<sup>1</sup> standalone BT, excluding any impact of EE acquisition

<sup>2</sup> excludes specific items, foreign exchange movements and the effect of acquisitions and disposals

<sup>3</sup> before specific items

<sup>4</sup> before specific items, pension deficit payments and the cash tax benefit of pension deficit payments





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**Gavin Patterson, Chief Executive**



# BT Global Services – improved cash generation

- ▶ Underlying revenue ex transit up 2%
  - UK up 2% helped by a large equipment sale
  - Continental Europe up 6%, IPX particularly strong
- ▶ EBITDA up 9% ex FX
  - continue to expect H2 to grow YoY
- ▶ Operating cash flow improved
  - 12-month performance best on record
- ▶ Product developments
  - improving cloud capabilities
  - expanding BT MeetMe with Dolby Voice into LatAm
  - cyber security
- ▶ Order intake down 19%, 12-month rolling up 1%
  - strong mix of orders



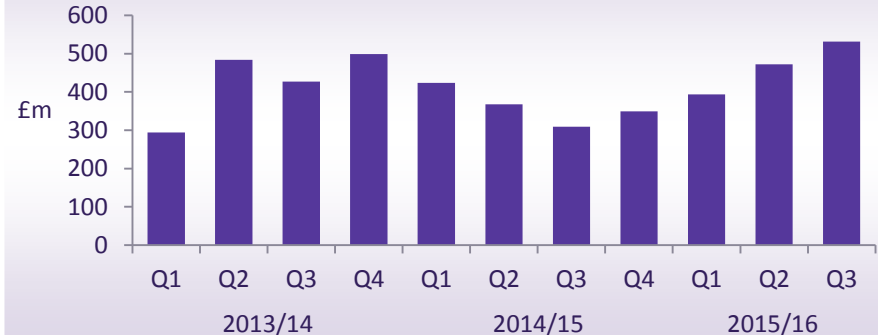
**Atos**



**COMMERZBANK**

	Q3 2015/16	YoY change
Revenue	£1,675m	(1)%
- u/l ex transit		2%
EBITDA	£276m	6%

## 12-month rolling operating cash flow

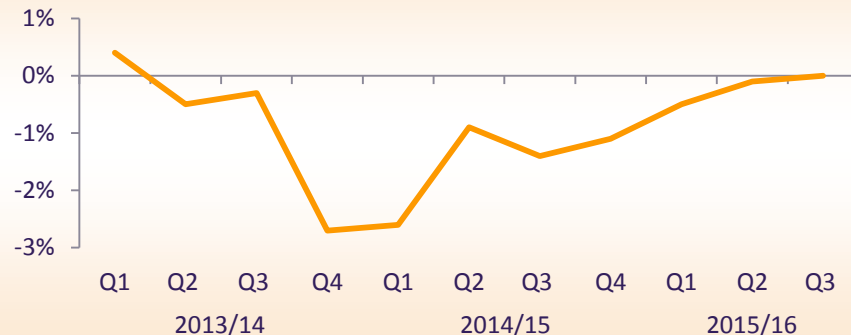


# BT Business – headwinds easing

- ▶ Underlying revenue ex transit flat
  - voice down 3%
  - Ireland up 4%
  - data & networking up 3%
- ▶ Business fibre broadband net adds up 26%
- ▶ IP lines grew 57%
  - helping to offset decline in PSTN lines
  - BT Cloud Voice and BT Cloud Phone performing well
- ▶ Underlying operating costs ex transit down 1%
- ▶ EBITDA up 1%
- ▶ Good operating cash flow, up 9%
  - lower capex and working capital timing
- ▶ Order intake down 5%
  - reflects strong performance in Ireland in prior year
  - 12-month rolling down 1%

	Q3 2015/16	YoY change
Revenue	£779m	(1)%
- u/l ex transit		flat
EBITDA	£268m	1%

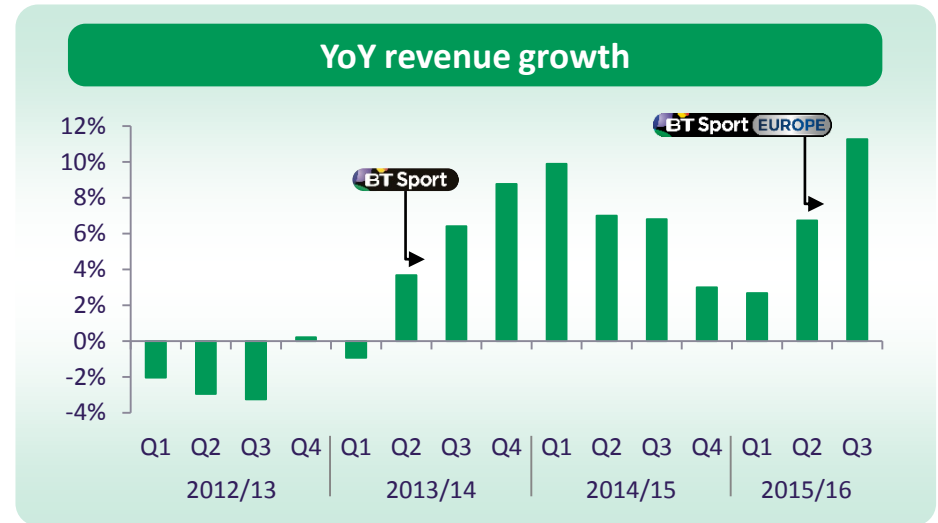
YoY change in underlying revenue ex transit



# BT Consumer – best revenue growth on record

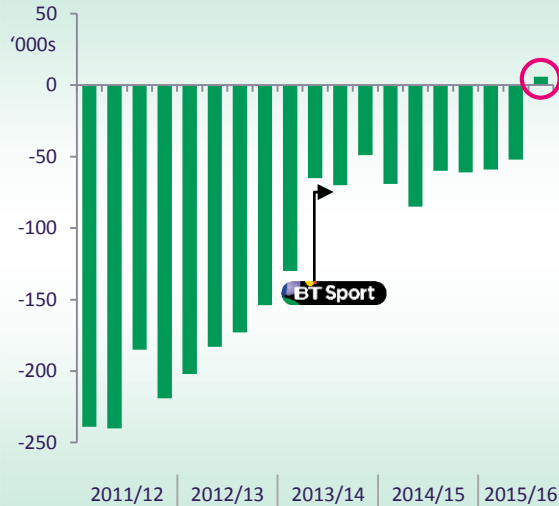
- ▶ Revenue up 11%
  - broadband and TV up 23%
  - helped by BT Mobile, now >300,000 customers
  
- ▶ ARPU up 7% to £439
  - pick-up in growth rate since start of year
  
- ▶ EBITDA up 8%
  - despite investment in BT Sport Europe and BT Mobile
  - and ongoing £80m investment in customer service; creating 1,000 more jobs
  
- ▶ Operating cash flow of £348m, up 27%
  - higher EBITDA
  - benefitting from phasing of UEFA rights payments

	Q3 2015/16	YoY change
Revenue	£1,205m	11%
EBITDA	£270m	8%



# BT Consumer – strong across all KPIs

## Change in Consumer lines

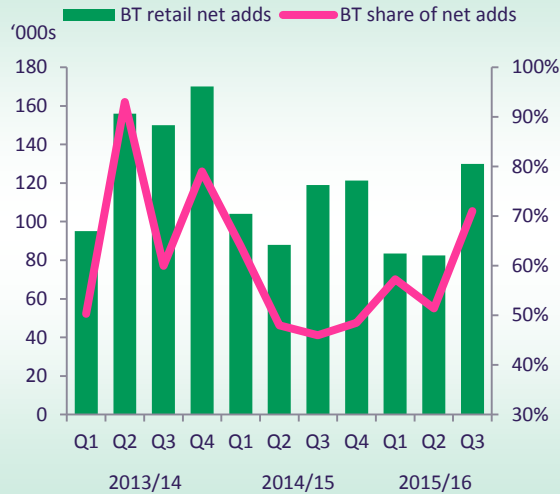


- ▶ Consumer lines up 6,000
  - best performance in over a decade

<sup>1</sup> includes business customers

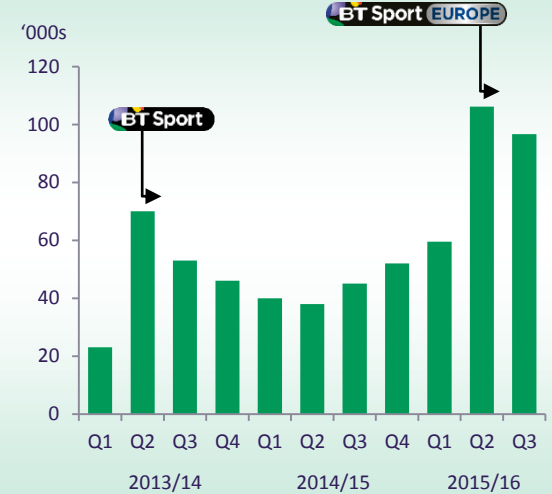
<sup>2</sup> DSL & fibre

## Retail broadband net adds



- ▶ Strong broadband performance
  - 130,000 retail broadband net adds<sup>1</sup>, 71% of market<sup>2</sup> growth
  - 250,000 retail fibre net adds
  - 46% of all broadband customers on fibre

## TV net adds



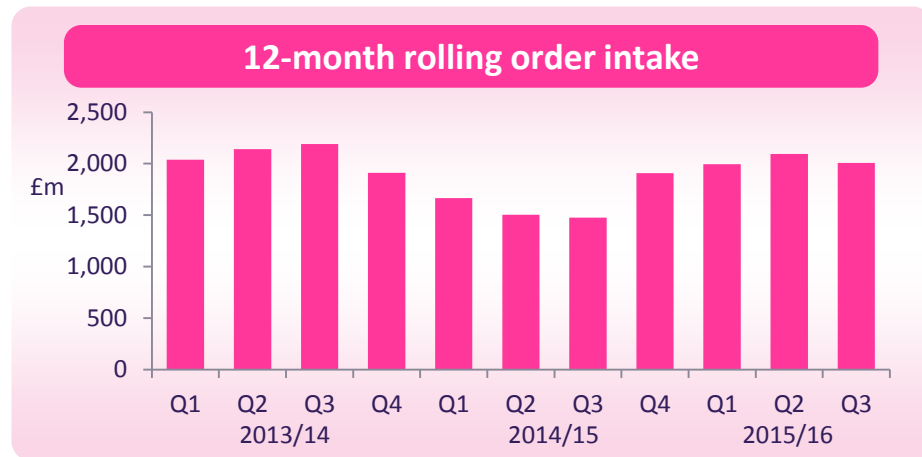
- ▶ 97,000 TV net adds
  - 1.4m TV customers
- ▶ Average BT Sport viewing up 46% YoY



# BT Wholesale – strong growth in IP services

- ▶ Underlying revenue ex transit up 3%
  - Managed Solutions up 10%; driven by connections
  - good growth in IP services, up 21%; IPX and Ethernet growing strongly
- ▶ Underlying operating costs ex transit up 4%
  - higher volumes in IP services
  - partly offset by an 8% decline in SG&A costs
- ▶ EBITDA down 1%
- ▶ Operating cash flow up 5%
  - lower capex
- ▶ Order intake down 20%, 12-month rolling up 36%
  - improved mix of orders

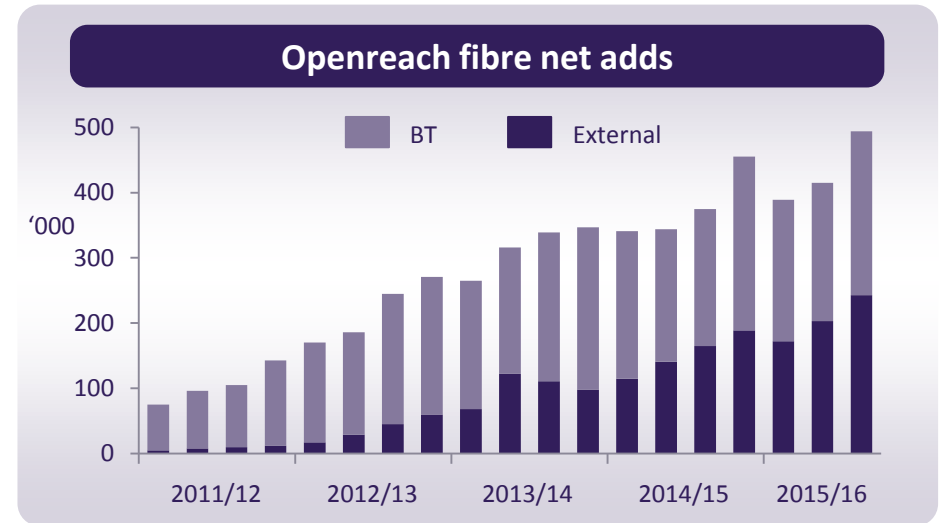
	Q3 2015/16	YoY change
Revenue	£527m	(1)%
- u/l ex transit		3%
EBITDA	£135m	(1)%



# Openreach – record growth in fibre

- ▶ Revenue up 3%
  - 45% growth in fibre broadband
  - partly offset by c.£30m impact from regulation
- ▶ Operating costs up 2%
  - leaver costs £22m (Q3 2014/15: nil)
- ▶ EBITDA up 4%
- ▶ Capital expenditure up 7%
  - connecting new homes
  - connecting businesses with Ethernet
- ▶ Operating cash flow £419m, down 11%
  - working capital movements
- ▶ Fibre going from strength to strength
  - record 494,000 net connections, up 32%
  - external CPs accounted for half of net adds
  - c.5.5m premises connected, 22% of those passed

	Q3 2015/16	YoY change
Revenue	£1,294m	3%
EBITDA	£677m	4%

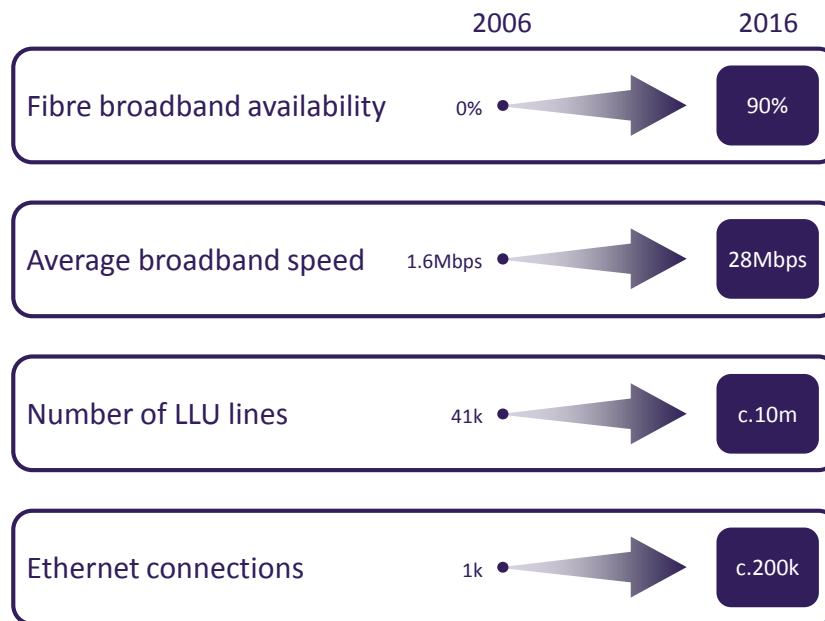


# Ten years since Openreach was created

## Continued investment in its networks

- ▶ £10.5bn capex in Openreach
  - capex up in 2014/15 and will grow again in 2015/16
- ▶ One of the fastest rollouts of fibre broadband in the world
- ▶ Supported by £0.5bn annual R&D spend
- ▶ Networks open with equivalent access for all

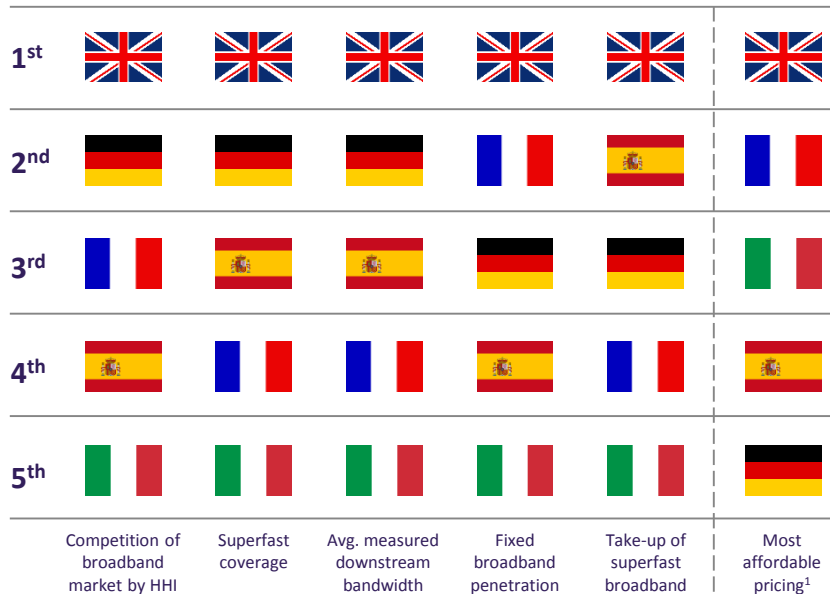
## A decade of progress





# Digital communications is a UK success story

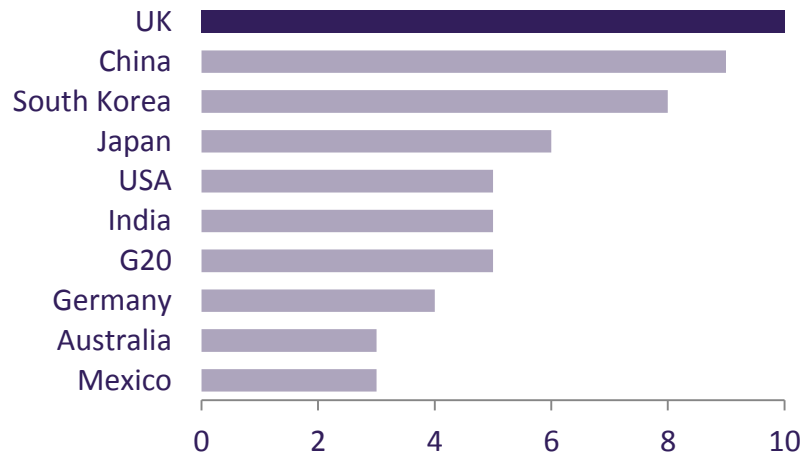
## No.1 of major European countries



Source: Analysys Mason, International benchmarking report, September 2015

4<sup>th</sup> out of 167 countries (ITU Development Index)

## % of GDP driven by internet (eGDP)



Source: BCG UK eGDP, May 2015

Source: Ofcom ICMR 2015

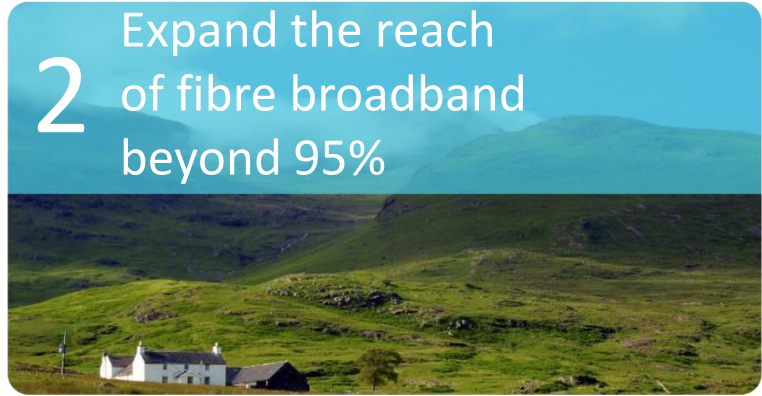
<sup>1</sup> 'Weighted average' bundled service pricing for a family household with multiple needs

# Four pledges to support the UK's digital future

**1** Deliver faster minimum broadband speeds



**2** Expand the reach of fibre broadband beyond 95%



**3** Take the UK from a Superfast to an Ultrafast nation



**4** Raise the bar on service



# Q3 summary

- ▶ Strong financial performance across the board
- ▶ Operational trends show our strategy is delivering
  - fibre, TV, sport and mobile
- ▶ Significant opportunities with EE
  - as the leading fixed-mobile player in the UK
  - with a new, UK-centric Business and Public Sector division
  - providing seamless, converged services wherever our customers are

Investing in a strong platform for growth



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**Q&A**





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**Appendix**



# Income statement

£m	Q3 2015/16	YoY change	Key points
<b>Revenue<sup>1</sup></b>	4,594	3%	▶ despite £54m negative impact from FX and £31m reduction in transit revenue
- underlying ex transit		4.7%	▶ reflects growth in Global Services, Consumer, Wholesale and Openreach
<b>EBITDA<sup>1</sup></b>	1,613	3%	▶ increase reflects strong revenue performance
<b>Operating profit<sup>1</sup></b>	1,021	8%	▶ depreciation and amortisation down 4%
<b>Profit before tax<sup>1</sup></b>	928	14%	
<b>EPS<sup>1</sup></b>	9.0p	13%	▶ average number of shares in issue up 3% YoY
<b>Specific items<sup>2</sup></b>	41	n/m	▶ mainly tax credit of £94m (change in UK corporation tax rate), partially offset by net interest expense on pensions of £55m

<sup>1</sup> before specific items

<sup>2</sup> net charge after tax

n/m = not meaningful

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# Free cash flow

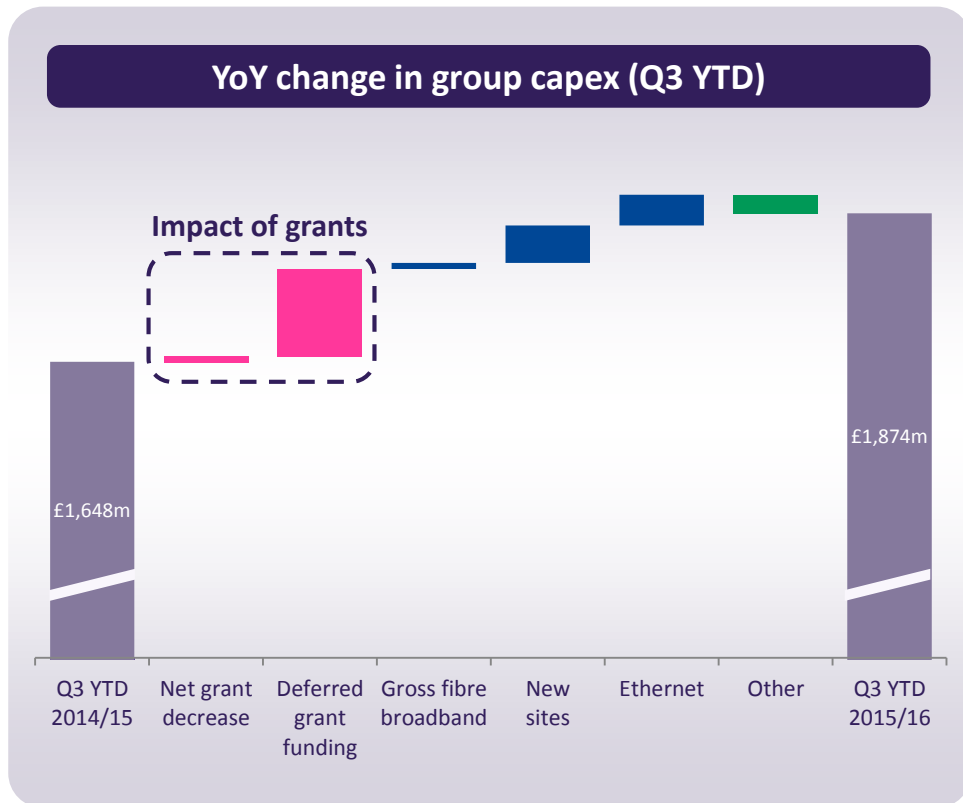
£m	Q3 2015/16	YoY change	Key points
<b>EBITDA<sup>1</sup></b>	1,613	46	
Capex	(589)	(21)	▶ connecting new homes, higher Ethernet volumes
Interest	(181)	2	
Tax <sup>2</sup>	(142)	(72)	▶ cash tax last year benefitted from maturing employee share schemes
Working capital & other	203	41	
<b>Normalised FCF</b>	<b>904</b>	(4)	
Cash tax benefit of pension deficit payments	44	29	
Specific items	(18)	(22)	▶ mainly £10m restructuring costs and £4m EE acquisition-related costs
<b>Reported FCF</b>	<b>930</b>	3	

<sup>1</sup> before specific items

<sup>2</sup> before cash tax benefit of pension deficit payments

# Capex

- ▶ Q3 capex £587m, down 2%
- ▶ Total of £179m fibre grant funding now deferred
  - reflects strong take-up
  - expect vast majority to be re-invested to improve reach and quality of network
- ▶ Q3 YTD capex up 6% excluding deferral
  - expansion of fibre network, connecting new sites, Ethernet provision
- ▶ Openreach capex to be higher in 2015/16 than 2014/15





# Other financial information

## ▶ Pension

- lower deficit primarily reflects lower inflationary pension increases to be awarded in 2016

<b>IAS 19, £bn</b>	<b>31 Dec 15</b>	<b>30 Sept 15</b>
Liabilities – BTPS	(47.3)	(48.2)
Assets – BTPS	41.7	41.5
Other schemes	(0.3)	(0.3)
Deficit – gross of tax	(5.9)	(7.0)
Deficit – net of tax	(4.9)	(5.6)

## ▶ Share buyback

- £35m spent in Q3, £285m year to date
- continue to expect to spend c.£300m for the year